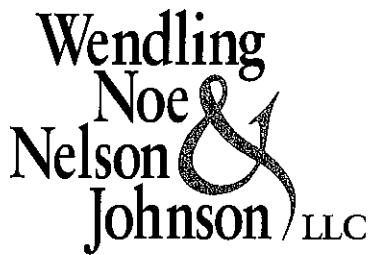


FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
HOSPITAL DISTRICT #1  
OF CRAWFORD COUNTY, KANSAS  
DECEMBER 31, 2014 AND 2013

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees  
Hospital District #1 of Crawford County, Kansas

We have audited the accompanying financial statements of the business-type activity of Hospital District #1 of Crawford County, Kansas (Hospital), as of and for the years ended December 31, 2014 and 2013, which collectively comprise the Hospital's financial statements as listed in the table of contents, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement; whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### ***Basis for Qualified Opinion***

The 2014 and 2013 financial statements referred to above do not include financial data of the Hospital District #1 Crawford County Foundation (Foundation), a component unit of the Hospital based on the nature and significance of the relationship between the Hospital and the Foundation. Although the Hospital does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America as provided for in Governmental Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units." If the omitted component unit had been included for the years ended December 31, 2014 and 2013, the component unit's assets and net assets would be approximately \$423,000 and \$438,000, respectively; and there would be a decrease in component unit net assets of approximately \$14,000 in 2014 and an increase in net assets of \$97,000 in 2013.

### ***Qualified Opinion***

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Hospital District #1 of Crawford County, Kansas, as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other-Matters***

The Hospital has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hospital District #1 of Crawford County, Kansas, financial statements as a whole. The supplementary information presented on pages 18 through 22 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 23 is presented solely as supplementary information. This data has been summarized from Hospital records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

*Wendy Noe Nelson & Johnson 22c*  
Topeka, Kansas  
April 9, 2015

FINANCIAL STATEMENTS

## HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

## STATEMENTS OF NET POSITION

December 31,

## ASSETS

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| CURRENT ASSETS   |                     |                     |
| Cash and invested cash   | \$ 2,908,790        | \$ 3,456,473        |
| Patient accounts receivable, net of allowance for doubtful accounts of \$500,000 in 2014 and \$590,000 in 2013 (Note A4) | 2,113,608           | 1,859,559           |
| Accounts receivable - other  | 112,444             | 100,343             |
| Estimated settlements due from third-party payors (Note B)   | 457,000             | 640,000             |
| Inventories (Note A5)  | 477,040             | 478,228             |
| Prepaid expenses   | 291,379             | 255,746             |
| Assets whose use is limited - required for current liabilities (Note D)  | <u>345,554</u>      | <u>345,919</u>      |
| Total current assets   | <u>6,705,815</u>    | <u>7,136,268</u>    |
| ASSETS WHOSE USE IS LIMITED  |                     |                     |
| By Board of Trustees (Note C)  | 179,569             | 149,065             |
| By bond resolution (Note D)  | <u>1,476,573</u>    | <u>1,476,938</u>    |
|  | 1,656,142           | 1,626,003           |
| Less amounts required for current liabilities  | <u>345,554</u>      | <u>345,919</u>      |
| Noncurrent assets whose use is limited   | <u>1,310,588</u>    | <u>1,280,084</u>    |
| CAPITAL ASSETS, NET (Notes A6, E, F, and G)  | <u>11,158,528</u>   | <u>12,264,305</u>   |
| OTHER ASSETS   |                     |                     |
| Other investments, at cost   | <u>35,100</u>       | <u>35,100</u>       |
| Total assets   | <u>\$19,210,031</u> | <u>\$20,715,757</u> |

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| CURRENT LIABILITIES   |                     |                     |
| Current portion of capital lease obligations (Note F)         | \$ 108,462          | \$ 387,287          |
| Current portion of long-term debt (Note G)                    | 474,332             | 470,660             |
| Accounts payable and other accrued liabilities                | 319,504             | 394,423             |
| Accrued payroll and related deductions                        | 320,281             | 285,969             |
| Accrued paid time off (Note A8)                               | 400,701             | 412,202             |
| Accrued interest payable                                      | <u>223,888</u>      | <u>227,586</u>      |
| Total current liabilities                                     | <u>1,847,168</u>    | <u>2,178,127</u>    |
| CAPITAL LEASE OBLIGATIONS, excluding current portion (Note F) |                     |                     |
|   | <u>152,839</u>      | <u>261,301</u>      |
| LONG-TERM DEBT, less current portion (Note G)                 |                     |                     |
|   | <u>12,300,739</u>   | <u>12,770,363</u>   |
| Total liabilities   | <u>14,300,746</u>   | <u>15,209,791</u>   |
| NET POSITION (Note A7)  |                     |                     |
| Invested in capital assets, net of related debt               | 1,111,813           | 1,714,642           |
| Restricted for debt service (Note D)                          | 1,476,573           | 1,476,938           |
| Unrestricted  | <u>2,320,899</u>    | <u>2,314,386</u>    |
| Total net position  | <u>4,909,285</u>    | <u>5,505,966</u>    |
| Total liabilities and net position                            | <u>\$19,210,031</u> | <u>\$20,715,757</u> |

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
Year ended December 31,

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| Operating revenues  |                     |                     |
| Net patient service revenue                                 | \$18,055,784        | \$17,831,396        |
| Other   | <u>149,988</u>      | <u>79,632</u>       |
| Total operating revenues                                    | <u>18,205,772</u>   | <u>17,911,028</u>   |
| Operating expenses  |                     |                     |
| Salaries and wages  | 9,054,168           | 8,729,453           |
| Employee benefits   | 2,162,415           | 1,879,723           |
| Purchased services and professional fees                    | 1,738,811           | 1,788,924           |
| Leases and rentals  | 221,301             | 226,821             |
| Other supplies and expenses                                 | 3,765,178           | 3,714,649           |
| Depreciation and amortization                               | <u>1,398,852</u>    | <u>1,402,273</u>    |
| Total operating expenses                                    | <u>18,340,725</u>   | <u>17,741,843</u>   |
| Operating income (loss)                                     | <u>(134,953)</u>    | <u>169,185</u>      |
| Nonoperating revenues (expenses)                            |                     |                     |
| Investment income   | 16,914              | 16,383              |
| Noncapital contributions                                    |                     | 318                 |
| Ad valorem taxes  | 95,912              | 79,770              |
| Interest expense  | (675,754)           | (705,695)           |
| Gain (loss) on disposal of equipment                        | <u>(8,628)</u>      | <u>14,029</u>       |
| Nonoperating revenues (expenses), net                       | <u>(571,556)</u>    | <u>(595,195)</u>    |
| Expenses in excess of revenues before capital contributions | (706,509)           | (426,010)           |
| Capital contributions                                       | <u>109,828</u>      |                     |
| Decrease in net position                                    | (596,681)           | (426,010)           |
| Net position at beginning of year                           | <u>5,505,966</u>    | <u>5,931,976</u>    |
| Net position at end of year                                 | <u>\$ 4,909,285</u> | <u>\$ 5,505,966</u> |

The accompanying notes are an integral part of these statements.



HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

STATEMENTS OF CASH FLOWS

Year ended December 31,

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Cash flows from operating activities                         |                     |                     |
| Receipts from and on behalf of patients                      | \$17,984,735        | \$17,411,493        |
| Payments to or on behalf of employees                        | (11,193,772)        | (10,623,442)        |
| Payments for supplies and services                           | (5,834,654)         | (5,859,169)         |
| Other receipts and payments                                  | <u>143,426</u>      | <u>58,527</u>       |
| Net cash provided by operating activities                    | <u>1,099,735</u>    | <u>987,409</u>      |
| Cash flows from noncapital financing activities              |                     |                     |
| Ad valorem taxes   | 95,912              | 79,770              |
| Noncapital contributions                                     | <u></u>             | <u>318</u>          |
| Net cash provided by noncapital financing activities         | <u>95,912</u>       | <u>80,088</u>       |
| Cash flows from capital and related financing activities     |                     |                     |
| Purchases of capital assets                                  | (334,939)           | (219,555)           |
| Proceeds from sales of equipment                             | 900                 | 15,993              |
| Repayments on capital lease obligations                      | (387,287)           | (434,156)           |
| Repayment of long-term debt and lines-of-credit              | (470,660)           | (463,361)           |
| Receipt of contributions restricted for capital assets       | 109,828             |                     |
| Interest paid on long-term debt                              | <u>(648,019)</u>    | <u>(677,735)</u>    |
| Net cash used by capital and related financing activities    | <u>(1,730,177)</u>  | <u>(1,778,814)</u>  |
| Cash flows from investing activities                         |                     |                     |
| Increase in assets whose use is limited by Board of Trustees | (30,504)            | (41,261)            |
| Decrease in assets whose use is limited by bond resolution   | 365                 | 1,687               |
| Investment income  | <u>16,986</u>       | <u>16,821</u>       |
| Net cash used by investing activities                        | <u>(13,153)</u>     | <u>(22,753)</u>     |
| Net decrease in cash and cash equivalents                    | (547,683)           | (734,070)           |
| Cash and cash equivalents at beginning of year               | <u>3,456,473</u>    | <u>4,190,543</u>    |
| Cash and cash equivalents at end of year                     | <u>\$ 2,908,790</u> | <u>\$ 3,456,473</u> |

The accompanying notes are an integral part of these statements.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

|   | <u>2014</u>         | <u>2013</u>       |
|---|---------------------|-------------------|
| Reconciliation of operating income to net cash provided by operating activities               |                     |                   |
| Operating income (loss)   | \$ (134,953)        | \$ 169,185        |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities |                     |                   |
| Depreciation and amortization   | 1,398,852           | 1,402,273         |
| Provision for bad debts   | 1,039,078           | 815,329           |
| Changes in  |                     |                   |
| Patient receivables   | (1,293,127)         | (838,232)         |
| Other receivables   | (6,562)             | (21,105)          |
| Estimated settlements due to/from third-party payors  | 183,000             | (397,000)         |
| Inventories   | 1,188               | (21,107)          |
| Prepaid expenses  | (35,633)            | 18,805            |
| Accounts payable and accrued expenses   | (74,919)            | (126,473)         |
| Accrued payroll and related deductions  | 34,312              | 53,009            |
| Accrued paid time off   | (11,501)            | (67,275)          |
| Net cash provided by operating activities   | <u>\$ 1,099,735</u> | <u>\$ 987,409</u> |

The accompanying notes are an integral part of these statements.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Hospital District #1 of Crawford County, Kansas (Hospital), is a municipal corporation operating an acute-care hospital located in Girard, Kansas, with a licensed bed capacity of 25 acute care beds and 10 geriatric psych beds. The Hospital also provides outpatient and home health service to the community and surrounding areas. The Hospital is governed by an elected five-member Board of Trustees.

2. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

5. Inventories

Inventories are stated at cost as determined using the average cost method.

6. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. Net position

The net position of the Hospital is classified in three components. Net position "Invested in capital assets, net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted" net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. "Unrestricted" net position is the remaining net position that does not meet the definition of "invested in capital assets, net of related debt" or "restricted."

8. Compensated absences

Hospital policies permit most employees to accumulate benefits (including paid time away from work to use for personal business, vacation, illness, and holidays) that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

9. Operating revenues and expenses

The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

10. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, the provision for bad debts, and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

11. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

12. Ad valorem taxes

The Hospital receives financial support from ad valorem taxes. The ad valorem taxes are used for the purchase of capital assets. Ad valorem taxes are assessed in November of each year and are available for use by the Hospital in the following year.

13. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

14. Cash and cash equivalents

All cash and invested cash, excluding assets whose use is limited and long-term investments, are considered to be cash equivalents.

NOTE B - REIMBURSEMENT PROGRAMS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated settlements due to/from third-party payors consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient and outpatient acute care services and skilled nursing swing-bed services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Geriatric psychology services are paid based on prospectively determined per diem rates. Home health and other physician services rendered to Medicare beneficiaries are paid based on prospectively determined rates.

The Hospital is paid for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2012.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are also paid at prospective rates determined on either a per diem or fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE B - REIMBURSEMENT PROGRAMS - Continued

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

A summary of gross and net patient service revenue follows:

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Gross patient service revenue          | \$36,771,406        | \$34,715,751        |
| Adjustments to patient service revenue |                     |                     |
| Third-party contractual adjustments,   |                     |                     |
| discounts, and allowances              | (17,502,896)        | (15,760,866)        |
| Provision for bad debts                | (1,039,078)         | (815,329)           |
| Charity care                           | <u>(173,648)</u>    | <u>(308,160)</u>    |
| Net patient service revenue            | <u>\$18,055,784</u> | <u>\$17,831,396</u> |

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy for 2014 and 2013, was \$173,648 and \$308,160, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost reports, was \$84,357 and \$153,675 for 2014 and 2013, respectively.

NOTE C - ASSETS WHOSE USE IS LIMITED BY BOARD OF TRUSTEES

Assets whose use is limited by Board of Trustees consist of invested cash to be used for replacement of capital assets or for the purchase of additional capital assets. The funds may be used for other purposes by action of the Board of Trustees.

NOTE D - ASSETS WHOSE USE IS LIMITED BY BOND RESOLUTION

Assets whose use is limited by bond resolution at December 31, 2014 and 2013, consist of required accounts to be maintained by the Hospital under the terms of the Crawford County, Kansas Public Building Commission Revenue Bonds, Series 2009, resolution (see Note G).

Funds held in these accounts consist of invested cash and are summarized as follows:

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| Debt service account - Series 2009            | \$ 345,554          | \$ 345,919          |
| Debt service reserve account - Series 2009    | <u>1,131,019</u>    | <u>1,131,019</u>    |
|   | 1,476,573           | 1,476,938           |
| Less amounts required for current liabilities | <u>345,554</u>      | <u>345,919</u>      |
|   | <u>\$ 1,131,019</u> | <u>\$ 1,131,019</u> |

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE D - ASSETS WHOSE USE IS LIMITED BY BOND RESOLUTION - Continued

Under the terms of the Series 2009 bond resolution, the debt service account is to be used for payment of principal and interest on the bonds. The debt service reserve account is to be used to prevent any default in the payment of principal and interest on the bonds.

NOTE E - CAPITAL ASSETS

Hospital capital asset additions, retirements, and balances are as follows:

|  | 2014                 |                         |                   | Ending<br>balance    |
|--|----------------------|-------------------------|-------------------|----------------------|
|  | Beginning<br>balance | Additions/<br>transfers | Retirements       |                      |
| Land and land improvements                     | \$ 907,673           | \$ -                    | \$ -              | \$ 907,673           |
| Buildings                                      | 10,051,320           | 15,918                  |                   | 10,067,238           |
| Fixed equipment                                | 7,207,675            |                         |                   | 7,207,675            |
| Major movable equipment                        | 6,507,571            | 379,704                 | (78,481)          | 6,808,794            |
| Leasehold improvements                         | 133,366              |                         |                   | 133,366              |
| Projects in progress                           | 93,019               | (93,019)                |                   |                      |
| Totals at historical cost                      | 24,900,624           | 302,603                 | (78,481)          | 25,124,746           |
| Less accumulated depreciation and amortization | (12,636,319)         | (1,398,852)             | 68,953            | (13,966,218)         |
| Capital assets, net                            | <u>\$ 12,264,305</u> | <u>\$ (1,096,249)</u>   | <u>\$ (9,528)</u> | <u>\$ 11,158,528</u> |

|  | 2013                 |                         |                   | Ending<br>balance    |
|--|----------------------|-------------------------|-------------------|----------------------|
|  | Beginning<br>balance | Additions/<br>transfers | Retirements       |                      |
| Land and land improvements                     | \$ 907,673           | \$ -                    | \$ -              | \$ 907,673           |
| Buildings                                      | 10,081,538           |                         | (30,218)          | 10,051,320           |
| Fixed equipment                                | 7,232,313            |                         | (24,638)          | 7,207,675            |
| Major movable equipment                        | 6,423,643            | 94,343                  | (10,415)          | 6,507,571            |
| Leasehold improvements                         | 133,366              |                         |                   | 133,366              |
| Projects in progress                           |                      | 93,019                  |                   | 93,019               |
| Totals at historical cost                      | 24,778,533           | 187,362                 | (65,271)          | 24,900,624           |
| Less accumulated depreciation and amortization | (11,297,353)         | (1,402,273)             | 63,307            | (12,636,319)         |
| Capital assets, net                            | <u>\$ 13,481,180</u> | <u>\$ (1,214,911)</u>   | <u>\$ (1,964)</u> | <u>\$ 12,264,305</u> |

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE F - LEASES

The Hospital leases certain property and equipment under long-term lease arrangements. Capital assets and accumulated depreciation and amortization include the following amounts for leases that have been capitalized:

|   | <u>2014</u>       |
|---|-------------------|
| Capital assets                                    | \$ 527,821        |
| Less accumulated depreciation<br>and amortization | <u>261,902</u>    |
|   | <u>\$ 265,919</u> |

The following is a schedule of future minimum lease payments under capital leases:

|                      | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|----------------------|-------------------|------------------|-------------------|
| 2015                 | \$ 108,462        | \$ 7,290         | \$ 115,752        |
| 2016                 | 82,153            | 4,038            | 86,191            |
| 2017                 | <u>70,686</u>     | <u>1,137</u>     | <u>71,823</u>     |
|                      | <u>\$ 261,301</u> | <u>\$ 12,465</u> | 273,766           |
| Less interest        |                   |                  | <u>12,465</u>     |
|                      |                   |                  | 261,301           |
| Less current portion |                   |                  | <u>108,462</u>    |
|                      |                   |                  | <u>\$ 152,839</u> |

The following is a summary of changes in capital lease obligations:

|  |                   |
|--|-------------------|
| Principal outstanding at January 1, 2013   | \$ 1,082,744      |
| 2013 payments on capital lease obligations | <u>(434,156)</u>  |
| Principal outstanding at December 31, 2013 | 648,588           |
| 2014 payments on capital lease obligations | <u>(387,287)</u>  |
| Principal outstanding at December 31, 2014 | <u>\$ 261,301</u> |

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense under operating leases in 2014 and 2013, was approximately \$221,000 and \$227,000, respectively.



HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE F - LEASES - Continued

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2014, that have initial or remaining lease terms in excess of one year:

|      |                   |
|------|-------------------|
| 2015 | \$ 111,204        |
| 2016 | <u>53,035</u>     |
|      | <u>\$ 164,239</u> |

NOTE G - LONG-TERM DEBT

Hospital long-term debt consists of the following:

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Note payable to a bank with an interest rate of 4.75% due in monthly installments through October 2015, collateralized by a clinic building  | \$ 42,665           | \$ 91,659           |
| 0% Note payable to Heartland Rural Electric Coop, issued in September 2009, in the original amount of \$600,000, with an administrative fee of 1% of the unpaid balance due annually starting at the inception of the note due to Heartland Rural Electric Coop, and an administrative fee of 1% of the unpaid principal balance due annually starting at the inception of the note due to a local bank, monthly principal payments of \$5,556 through August 31, 2014 | 311,111             | 377,777             |
| 2.00% - 6.85% Crawford County, Kansas Public Building Commission Revenue Bonds Series 2009, issued on September 9, 2009, in the original amount of \$13,855,000  | <u>12,480,000</u>   | <u>12,835,000</u>   |
|  | 12,833,776          | 13,304,436          |
| Net unamortized discount   | (58,705)            | (63,413)            |
| Less current maturities  | <u>(474,332)</u>    | <u>(470,660)</u>    |
|  | <u>\$12,300,739</u> | <u>\$12,770,363</u> |

The Series 2009 revenue bonds are due in annual installments of varying amounts with final maturity on September 1, 2035. Interest is payable on March 1 and September 1 of each year.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE G - LONG-TERM DEBT - Continued

The following is a schedule of future maturities of revenue bonds:

|             | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|-------------|---------------------|---------------------|---------------------|
| 2015        | \$ 474,332          | \$ 678,830          | \$ 1,153,162        |
| 2016        | 446,666             | 664,233             | 1,110,899           |
| 2017        | 461,667             | 649,124             | 1,110,791           |
| 2018        | 476,667             | 631,991             | 1,108,658           |
| 2019        | 469,444             | 613,745             | 1,083,189           |
| 2020 - 2024 | 2,380,000           | 2,728,363           | 5,108,363           |
| 2025 - 2029 | 3,075,000           | 2,036,263           | 5,111,263           |
| 2030 - 2034 | 4,080,000           | 1,140,090           | 5,220,090           |
| 2035        | <u>970,000</u>      | <u>66,445</u>       | <u>1,036,445</u>    |
|             | <u>\$12,833,776</u> | <u>\$ 9,209,084</u> | <u>\$22,042,860</u> |

The following is a summary of changes in long-term debt:

|  |                      |
|--|----------------------|
| Principal outstanding at January 1, 2013   | \$ 13,767,798        |
| 2013 payments on long-term debt            | <u>(463,362)</u>     |
| Principal outstanding at December 31, 2013 | 13,304,436           |
| 2014 payments on long-term debt            | <u>(470,660)</u>     |
| Principal outstanding at December 31, 2014 | <u>\$ 12,833,776</u> |

The provisions of the Bond Indenture contain covenants which, among other things, require the segregation of funds for payment of principal and interest on the bonds (see Note D) and require the establishment and maintenance of charge rates for Hospital services at such levels so that net revenues available for debt service of the Hospital will not be less than 115 percent of the annual debt service requirements on the Hospital's parity debt obligations.

NOTE H - LINE-OF-CREDIT

The Hospital has a \$311,111 available line-of-credit at December 31, 2014, with a local bank in connection with the Heartland Rural Electric Coop note payable (see Note G). No amounts have been drawn against this line-of-credit as of December 31, 2014.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE I - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies are renewed through March 27, 2016. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks.

NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes generally require that financial institutions pledge securities with a market value equal to total deposits, except for monies acquired through the receipt of grants, donations, bequests, and gifts, in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Hospital's deposits with financial institutions was \$3,432,539 and the bank balances were \$3,526,659 at December 31, 2014. The bank balances are categorized as follows at December 31, 2014:

|   |                     |
|---|---------------------|
| Amount insured by the F.D.I.C., or collateralized with the Hospital's name  | \$ 909,284          |
| Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name) | <u>2,617,375</u>    |
|   | <u>\$ 3,526,659</u> |

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE K - DEFINED CONTRIBUTION PENSION PLAN

The Hospital sponsors a defined contribution pension plan that provides pension benefits for substantially all of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The Hospital matches employee contributions up to 4 percent of compensation excluding bonuses. The employees can contribute up to the maximum allowed by the Internal Revenue Service. The employees are fully vested in Hospital contributions after five years of service.

For the years ended December 31, 2014 and 2013, the Hospital and covered employees made contributions to the plan as follows:

|                        | <u>2014</u> | <u>2013</u> |
|------------------------|-------------|-------------|
| Hospital contributions | \$ 205,978  | \$ 205,467  |
| Employee contributions | 317,660     | 303,095     |

NOTE L - BUDGETARY COMPARISON

The Hospital legally adopted a budget for capital fund expenditures for the years ended December 31, 2014 and 2013. Actual capital fund expenditures for the year ended December 31, 2014, were \$302,603 as compared to the legally adopted budgeted expenditures of \$555,710. Actual capital fund expenditures for the year ended December 31, 2013, were \$187,362 as compared to the legally adopted budgeted expenditures of \$400,000.

NOTE M - RELATED PARTY TRANSACTIONS

Hospital District #1 Crawford County Foundation (Foundation) was established in September 1999. The Foundation's Articles of Incorporation provide that its funds are for the benefit of the Hospital. The Foundation donated \$109,828 in capital contributions to the Hospital during the year ended December 31, 2014.

NOTE N - COMMITMENTS AND CONTINGENCIES

In January 2015, the Medical Center entered into a contract in the amount of \$249,400 for the purchase of a new mammography unit. The Medical Center expects to pay for the equipment in full in 2015 and to be reimbursed for the cost of the unit by the Hospital District #1 Crawford County Foundation. Service expense related to the equipment purchased will be \$37,500 per year. The equipment was received and installed in March 2015.

NOTE O - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NET PATIENT SERVICE REVENUE

Year ended December 31,

|   | 2014                 |                      |                      | 2013                 |
|---|----------------------|----------------------|----------------------|----------------------|
|   | <u>Inpatient</u>     | <u>Outpatient</u>    | <u>Total</u>         | <u>Total</u>         |
| Acute care room                                       | \$ 1,115,168         | \$ 423,828           | \$ 1,538,996         | \$ 1,797,552         |
| Swing-bed room  | 395,654              |                      | 395,654              | 509,534              |
| Intensive care room                                   | 262,892              |                      | 262,892              | 337,994              |
| Geriatric psych                                       | 3,331,010            | 606,238              | 3,937,248            | 3,520,186            |
| Operating room  | 813,497              | 3,381,185            | 4,194,682            | 3,303,487            |
| Orthopedic  |                      | 238,102              | 238,102              | 238,950              |
| Anesthesiology  | 95,715               | 488,404              | 584,119              | 470,846              |
| Radiology   | 916,815              | 4,697,426            | 5,614,241            | 5,161,631            |
| Laboratory  | 1,154,304            | 4,897,181            | 6,051,485            | 6,431,735            |
| Respiratory therapy                                   | 247,417              | 51,596               | 299,013              | 339,993              |
| Physical therapy                                      | 248,065              | 711,041              | 959,106              | 911,277              |
| Occupational therapy                                  | 227,619              | 199,806              | 427,425              | 380,308              |
| Speech therapy  | 23,067               | 5,303                | 28,370               | 29,899               |
| Medical supplies                                      | 261,685              | 564,357              | 826,042              | 729,884              |
| Pharmacy  | 2,140,508            | 1,695,119            | 3,835,627            | 4,246,278            |
| Electrocardiology                                     | 152,590              | 577,915              | 730,505              | 759,281              |
| Emergency room  | 157,522              | 2,367,367            | 2,524,889            | 2,383,108            |
| Home health   | 125                  | 582,063              | 582,188              | 403,467              |
| Physician clinics                                     | 489,816              | 3,224,814            | 3,714,630            | 2,740,756            |
| Community outreach                                    |                      | 26,192               | 26,192               | 19,585               |
| Gross patient service revenue                         | <u>\$ 12,033,469</u> | <u>\$ 24,737,937</u> | 36,771,406           | 34,715,751           |
| Contractual adjustments,<br>discounts, and allowances |                      |                      |                      |                      |
| Medicare  |                      |                      | (9,062,491)          | (9,162,373)          |
| Medicaid  |                      |                      | (2,513,599)          | (2,312,885)          |
| Blue Cross  |                      |                      | (3,707,093)          | (2,963,553)          |
| Other   |                      |                      | (2,219,713)          | (1,322,055)          |
| Provision for bad debts                               |                      |                      | (1,039,078)          | (815,329)            |
| Charity care  |                      |                      | (173,648)            | (308,160)            |
| Net patient service revenue                           |                      |                      | <u>\$ 18,055,784</u> | <u>\$ 17,831,396</u> |

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

OTHER REVENUE

Year ended December 31,

|                 | <u>2014</u>       | <u>2013</u>      |
|-----------------|-------------------|------------------|
| Clinic rental   | \$ 13,270         | \$ 10,130        |
| Cafeteria sales | 42,708            | 47,753           |
| Grants received | 12,663            | 15,187           |
| Other           | <u>81,347</u>     | <u>6,562</u>     |
|                 | <u>\$ 149,988</u> | <u>\$ 79,632</u> |

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

OPERATING EXPENSES

Year ended December 31,

|                                 | 2014                |                     |                      | 2013                 |
|---------------------------------|---------------------|---------------------|----------------------|----------------------|
|                                 | <u>Salaries</u>     | <u>Other</u>        | <u>Total</u>         | <u>Total</u>         |
| Nursing service                 | \$ 547,874          | \$ 55,743           | \$ 603,617           | \$ 836,451           |
| Intensive care                  | 239,074             | 9,093               | 248,167              | 201,446              |
| Swing-bed                       | 23,944              | 68                  | 24,012               | 25,774               |
| Geriatric psych                 | 881,474             | 481,443             | 1,362,917            | 1,507,264            |
| Operating room                  | 368,456             | 94,406              | 462,862              | 413,829              |
| Orthopedic                      | 602,401             | 42,425              | 644,826              | 627,184              |
| Anesthesiology                  |                     | 391,545             | 391,545              | 376,723              |
| Radiology                       | 303,141             | 292,788             | 595,929              | 551,103              |
| Laboratory                      | 458,344             | 563,501             | 1,021,845            | 1,028,788            |
| Respiratory therapy             | 166,272             | 5,395               | 171,667              | 168,169              |
| Physical therapy                | 194,244             | 14,811              | 209,055              | 219,373              |
| Occupational therapy            | 103,007             | 32,516              | 135,523              | 84,542               |
| Speech therapy                  |                     | 12,235              | 12,235               | 12,515               |
| Central supply                  | 69,933              | 727,563             | 797,496              | 685,038              |
| Pharmacy                        | 212,885             | 546,962             | 759,847              | 774,052              |
| Electrocardiology               |                     | -                   | -                    | 20                   |
| Emergency room                  | 960,991             | 89,423              | 1,050,414            | 1,007,140            |
| Home health                     | 288,560             | 14,793              | 303,353              | 270,767              |
| Physician clinics               | 1,888,369           | 673,417             | 2,561,786            | 2,104,438            |
| Depreciation and amortization   |                     | 1,398,852           | 1,398,852            | 1,402,273            |
| Employee benefits               |                     | 2,162,415           | 2,162,415            | 1,879,723            |
| Administrative and general      | 972,030             | 775,567             | 1,747,597            | 1,962,691            |
| Plant operation and maintenance | 165,407             | 486,497             | 651,904              | 635,918              |
| Laundry and linen               |                     | 52,689              | 52,689               | 55,581               |
| Housekeeping                    | 145,953             | 91,311              | 237,264              | 219,329              |
| Dietary                         | 199,588             | 213,567             | 413,155              | 407,940              |
| Nursing administration          | 116,752             | 1,083               | 117,835              | 81,472               |
| Medical records                 | 148,230             | 47,144              | 195,374              | 179,772              |
| Community outreach              | (2,761)             | 9,305               | 6,544                | 22,528               |
|                                 | <u>\$ 9,054,168</u> | <u>\$ 9,286,557</u> | <u>\$ 18,340,725</u> | <u>\$ 17,741,843</u> |



HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS  
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY  
December 31, 2014

|   | <u>First National<br/>Bank of Girard</u> | <u>Girard<br/>National Bank</u> | <u>Community<br/>National<br/>Bank</u> | <u>Exchange<br/>State<br/>Bank</u> |
|---|--|---------------------------------|--|------------------------------------|
| Bank balances,<br>December 31, 2014       | \$ 2,578,920                             | \$ 538,455                      | \$ 205,272                             | \$ 204,012                         |
| Less F.D.I.C coverage                     | <u>250,000</u>                           | <u>250,000</u>                  | <u>205,272</u>                         | <u>204,012</u>                     |
| Balance in excess of<br>F.D.I.C. coverage | <u>\$ 2,328,920</u>                      | <u>\$ 288,455</u>               | <u>\$ -</u>                            | <u>\$ -</u>                        |
| Market value of securities<br>pledged     | <u>\$ 2,381,935</u>                      | <u>\$ 1,000,506</u>             | <u>\$ -</u>                            | <u>\$ -</u>                        |

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

SUMMARY OF INSURANCE COVERAGE

December 31, 2014

Federal Insurance Company

Policy No. 3585-70-69, expiring

March 27, 2015

Property coverage

Buildings and contents, \$5,000 deductible

\$23,506,248

Blanket BPP, \$5,000 deductible

6,391,275

Business interruption

15,000,000

Cincinnati Insurance Company

Policy No. CAP 521 73 23, expiring March 27, 2015

Employee dishonesty-blanket, \$10,000 deductible

500,000

Computer fraud, \$2,500 deductible

200,000

Funds transfer fraud, \$2,500 deductible

200,000

Forgery, \$10,000 deductible

200,000

Kansas Medical Mutual Insurance Company

Policy No. HPL0015113, expiring March 27, 2015

Professional hospital liability

Professional claims

200,000/600,000

Kansas Healthcare Stabilization Fund coverage

800,000/2,400,000

Additional insureds

1,000,000/3,000,000

General liability

Personal injury and property damage liability

1,000,000/3,000,000

Employee benefits liability, \$1,000 deductible

250,000

Cincinnati Insurance Company

Policy No. #BCP0007853, expiring March 27, 2015

Directors' and officers' liability and trustee

and fiduciary liability, \$5,000 deductible

1,000,000

Employment practices liability, \$10,000

deductible

1,000,000

Internet security, \$100,000 deductible

1,000,000

KHA Workers' Compensation Fund, Inc.

Certificate No. 83, expiring January 1, 2015

Workers compensation

Per accident

500,000

Per employee disease

500,000

Policy limit employee disease

500,000

Cincinnati Insurance Company

Policy No. EBA0115804, expiring October 28, 2015

Automobile liability, each accident

1,000,000

Automobile uninsured motorist, each accident

1,000,000

Automobile underinsured motorist, each accident

1,000,000

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

STATISTICAL DATA

(Unaudited)

Year ended December 31,

|                                   | <u>2014</u>   | <u>2013</u>   |
|-----------------------------------|---------------|---------------|
| Patient days                      |               |               |
| Acute                             | 1,245         | 1,661         |
| Swing-bed                         | <u>729</u>    | <u>1,027</u>  |
| Total inpatient                   | <u>1,974</u>  | <u>2,688</u>  |
| Geriatric psych                   | <u>3,302</u>  | <u>3,092</u>  |
| Outpatient visits                 | <u>19,979</u> | <u>21,023</u> |
| Discharges                        |               |               |
| Acute                             | 380           | 513           |
| Geriatric psych                   | 224           | 210           |
| Average length of stay            |               |               |
| Acute                             | 3.3           | 3.2           |
| Geriatric psych                   | 14.7          | 14.7          |
| Beds                              |               |               |
| Acute                             | 25            | 25            |
| Geriatric psych                   | 10            | 10            |
| Occupancy percent inpatient       | 21.63%        | 29.46%        |
| Occupancy percent geriatric psych | 90.47%        | 84.71%        |